BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Spring 2013 Survey | Vol. 10.1 | 8 April 2013

Overview

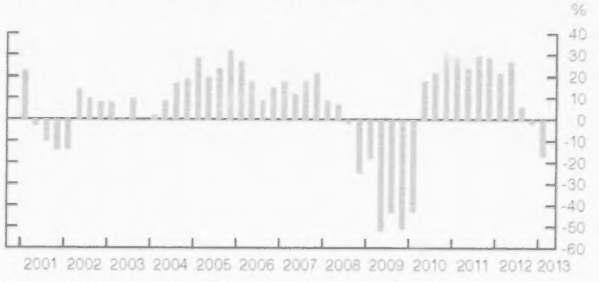
- Taken together, responses to the spring survey indicate that, following a recent slowing in economic activity, firms expect business conditions to remain challenging over the next 12 months.
- On balance, firms reported that sales growth slowed over the past 12 months and, amid ongoing concerns about demand, cited strategies to improve sales growth over the next 12 months. The balance of opinion on investment is positive but has declined, and hiring intentions are little changed. Firms indicated that uncertainty continues to weigh on their plans and decisions.
- Capacity pressures are essentially unchanged, and fewer firms report labour shortages. Firms expect little change in input price inflation and, given weak demand and strong competition, they expect output prices to rise at a slower pace. Inflation expectations have moderated but remain concentrated within the Bank's inflation-control range.
- On balance, firms reported a minor tightening in credit conditions over the past three months.

Business Activity

The balance of opinion on past sales is negative (Chart 1) as firms, particularly those in the services sector, recorded slower or negative sales growth over the past 12 months. The balance of opinion on future sales growth is positive (Chart 2), but given ongoing concerns about domestic and global demand, firms

Chart 1: On balance, firms report slower sales growth over the past 12 months...

Balance of opinion[a]
Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?

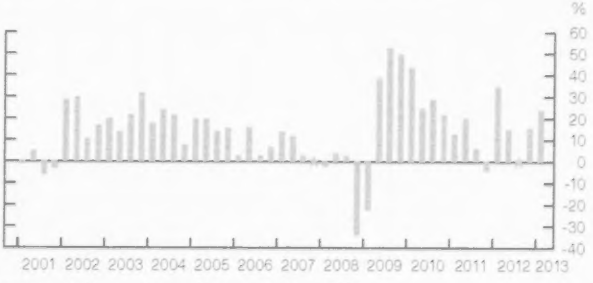


Greater: 31% Same: 22% Lesser: 48%

a. Percentage of firms reporting faster growth minus the percentage reporting slower growth

Chart 2: ...but expect to generate higher sales growth over the next 12 months, although expectations are modest

Balance of opinion[a]
Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 50% Same: 25% Lesser: 26%

a. Percentage of firms expecting faster growth minus the percentage expecting slower growth
* Indicates a balance of opinion of zero

The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website. The Spring 2013 survey was conducted from 19 February to 14 March 2013. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

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generally expect any improvement in sales growth to be only modest. Faced with the challenge of maintaining market share in a competitive environment, many firms reported focusing on strategies to boost sales—for example, by introducing new products or targeting new segments of demand—or to protect profit margins by reducing costs. The outlook for the U.S. economy is providing modest support for sales expectations.

While still pointing to an increase over the next 12 months, the balance of opinion on investment in machinery and equipment declined in the spring survey (Chart 3). Many firms indicated that uncertainty is having some influence on their investment plans, leading them to postpone some projects; favour investments with a shorter payoff period, smaller capital outlays or less risk; or shift their investment spending toward new or different segments of demand.

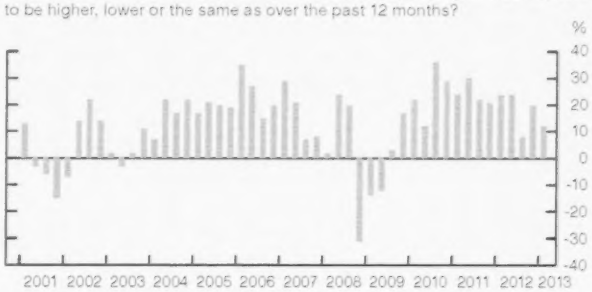
The balance of opinion on employment is positive and little changed from the level recorded in the winter survey (Chart 4). Some firms indicated that they were expecting to benefit from recent initiatives aimed at improving productivity and, therefore, any increases in their workforces over the next 12 months would likely be small.

Pressures on Production Capacity

The percentage of firms reporting that they would have some or significant difficulty in meeting an unexpected increase in demand is essentially unchanged from the winter survey (Chart 5). Nearly all firms reporting difficulty indicated that they would have "some" rather than "significant" difficulty.

Chart 3: Plans to increase investment spending are somewhat less widespread

Balance of opinion[a]
Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

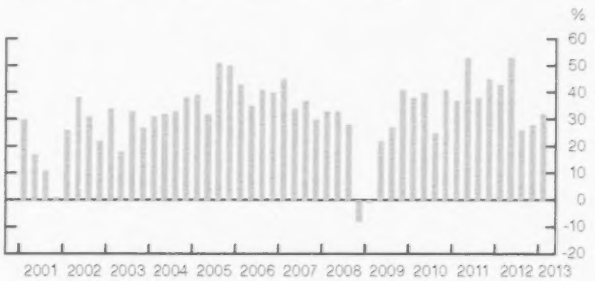


Higher: 39% Same: 35% Lower: 27%

a. Percentage of firms expecting higher investment minus the percentage expecting lower investment

Chart 4: The balance of opinion on employment is little changed

Balance of opinion[a]
Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?

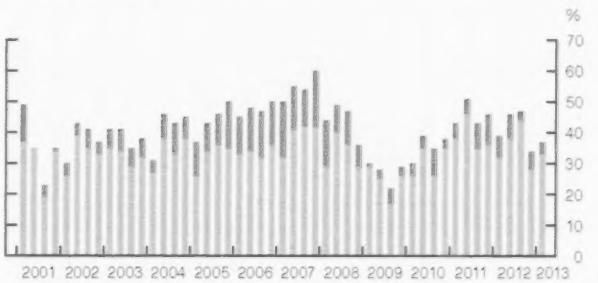


Higher: 45% Same: 43% Lower: 13%

a. Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Chart 5: Capacity pressures are largely unchanged...

How would you rate the current ability of your firm to meet an unexpected increase in demand?

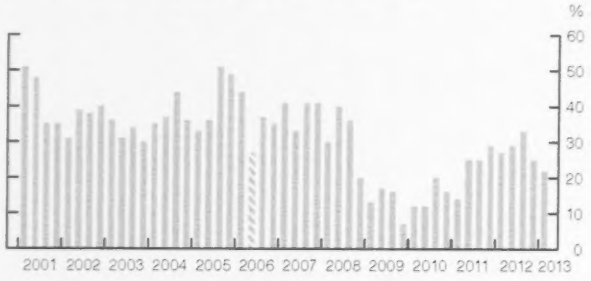


Significant difficulty: 4% Some difficulty: 33%

The percentage of firms reporting that labour shortages are currently restricting their ability to meet demand declined for the second consecutive survey (Chart 6) and is below the survey average.

Chart 6: ...and fewer firms face labour shortages that restrict their ability to meet demand

Does your firm face any shortages of labour that restrict your ability to meet demand?



Yes: 22%

The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

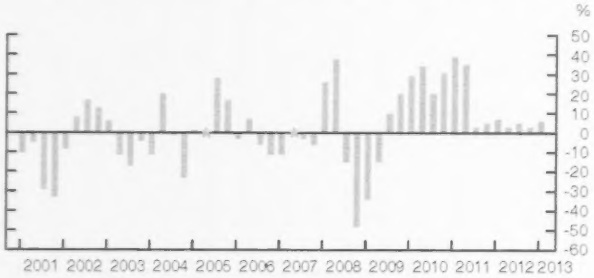
Prices and Inflation

For the seventh consecutive quarter, the balance of opinion on input prices remains close to zero, indicating that firms expect increases in input prices over the next 12 months to be similar to those experienced over the past 12 months (Chart 7). Firms also reported that changes in demand conditions have given them stronger negotiating power with some suppliers.

Chart 7: Firms expect little change in input price inflation over the next 12 months...

Balance of opinion[a]

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 26% Same: 54% Lesser: 20%

a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

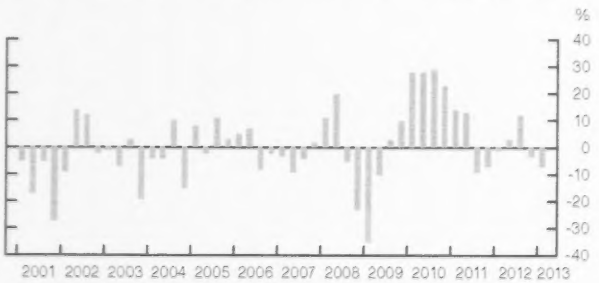
* Indicates a balance of opinion of zero

The balance of opinion on output prices is modestly negative, indicating that firms expect output prices to increase at a slower rate over the next 12 months (Chart 8). This view was evident across most regions and sectors. Businesses expecting higher sales growth over the next 12 months also expect slower increases in output prices in the context of weak demand and strong competition.

Chart 8: ...and expect output prices to rise at a slower rate owing to weak demand and strong competition

Balance of opinion[a]

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



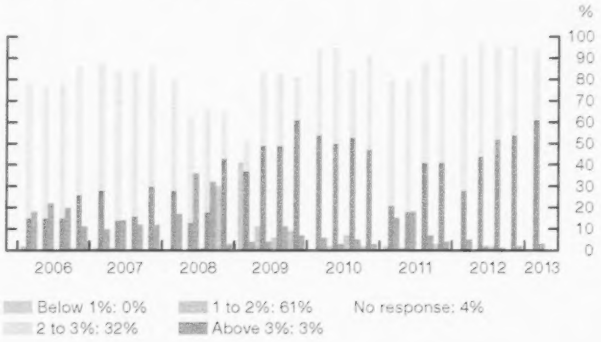
Greater: 23% Same: 48% Lesser: 30%

a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Expectations regarding the level of total CPI inflation over the next two years have moderated since the winter survey. While the vast majority of firms continue to expect inflation to be within the Bank's 1 to 3 per cent inflation-control range (Chart 9), expectations have been gradually shifting into the lower portion of that range.

Chart 9: Inflation expectations are concentrated within the Bank's inflation-control range

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?



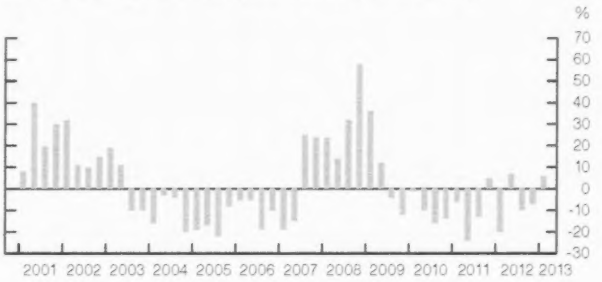
Credit Conditions

While the majority of firms reported no change in credit conditions over the past three months, the balance of opinion is slightly above zero, pointing to a tightening (Chart 10). Those reporting tighter credit conditions were primarily smaller firms experiencing minor, firm-specific changes to the amount of oversight on their credit arrangements.

Chart 10: On balance, firms reported a minor tightening in credit conditions over the past three months

Balance of opinion[a]

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



Tightened: 17% Not changed: 72% Eased: 11%

a. Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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